

MEMO# 3546

February 26, 1992

SEC SUBMITS INVESTMENT ADVISER PROPOSALS TO SENATE SUBCOMMITTEE; INSTITUTE TESTIFIES

February 26, 1992 TO: BOARD OF GOVERNORS NO. 14-92 SEC RULES MEMBERS NO. 9-92 INVESTMENT ADVISER MEMBERS NO. 7-92 INVESTMENT ADVISER ASSOCIATE MEMBERS NO. 6-92 RE: SEC SUBMITS INVESTMENT ADVISER PROPOSALS TO SENATE SUBCOMMITTEE; INSTITUTE TESTIFIES _____ Background As you know, the Institute has been actively involved in the issue of investment adviser regulation, which is a legislative priority in this Congressional session. Members of Congress, the SEC and industry representatives have expressed grave concerns about the current level of SEC oversight of the investment adviser industry. The recent case involving the California investment adviser who allegedly defrauded a number of small municipalities of \$100 million has provided the impetus for Congress to act quickly to address what is perceived to be a serious consumer problem. On February 20, the Senate Banking Securities Subcommittee held a hearing on proposals to increase the supervision of investment advisers. Witnesses at the hearing included the SEC, the Institute, the Investment Counsel Association of America, the North American Securities Administrators Association and three individual investors. SEC Testimony In his testimony, SEC Chairman Breeden described the current level of SEC inspection and oversight of investment advisers as "totally inadequate" and recommended the imposition of an annual investment adviser fee to increase resources to fund the SEC's inspection program. The annual fee would be assessed pursuant to a tiered schedule that would require a minimum fee of \$300 a year for advisers with assets under management of \$10 million or less, and a maximum fee of approximately \$7,000 for advisers with over \$5 billion under management.

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